

chimo

The Director of Central Intelligence
Washington, D.C. 20505

National Intelligence Council

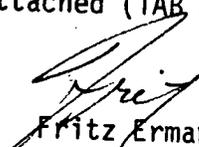
24 May 1988

NOTE FOR: Bill Baker
D/PAO

FROM: Fritz Ermarth
C/NIC

SUBJECT: Attached Correspondence

I thought when I left the NSC Staff the sort of correspondence attached (TAB A) would no longer pursue me. Let's hope it tapers off. I recommend that, if any reply is in order at all, it come from your office. A suggested reply is also attached (TAB B).


Fritz Ermarth

Attachments:
As stated

ADMINISTRATIVE - INTERNAL USE ONLY

DRAFT LETTER

Mr. Gerald Gidwitz
Chairman of the Board
Helene Curtis, Inc.
325 North Wells Street
Chicago, Illinois 60610

Dear Mr. Gidwitz:

This letter is in response to your letter of 16 May to Mr. Fritz W. Ermarth concerning US policy toward trade with the USSR. Since he moved from the National Security Council Staff to a position in the Intelligence Community, Mr. Ermarth is no longer the appropriate official to comment on the US policy issues that you raise. I suggest that you write to Mr. Nelson Ledsky or Mr. Steven Danzansky, both of the National Security Council Staff, Old Executive Office Building, Washington, D.C. 20506, for further statements on US policy in this area. Thank you for your interest.

Yours sincerely,

William Baker

(copies to: Nelson Ledsky, NSC
Stephen I. Danzansky, NSC
Fritz W. Ermarth, C/NIC)

325 N. Wells Street
Chicago, Illinois
60610
Telephone 312-661-0222

Gerald Gidwitz
Chairman of the Board

May 16, 1988

Mr. Fritz Ermath
Central Intelligence Agency
Washington, D.C. 20505

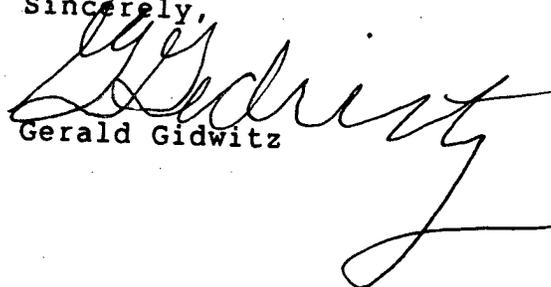
Dear Mr. Ermath:

Enclosed please find my correspondence with James Baker III,
Secretary of the Treasury.

It seems to me that both he and Mr. Verity are pursuing a
policy that is substantially different from that of the President
of the United States.

I'd appreciate it if you could enlighten me as to what is
going on.

Sincerely,



Gerald Gidwitz

GG/at
enc:

Secretary Baker's letters & enclosures

Helene Curtis, Inc.

325 N. Wells Street

Chicago, Illinois

60610

Telephone 312-664-0222

Gerald Glowitz

Chairman of the Board

May 16, 1988

Secretary James A. Baker III
Department of the Treasury
15th and Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Secretary Baker:

I have received your May 19th letter, apparently a form letter prepared to answer the voluminous mail you must be receiving regarding the policy of assisting American Corporations to enter into business contracts and open plants in the U.S.S.R. for "non-strategic" trade.

I wrote you complaining about the apparent change of policy. Now I find from your letter that the policy has not changed, and that this administration, in spite of the rhetoric regarding the "Evil Empire" has continued its past policies of bailing out the Soviet Union whenever it gets in trouble.

The previous administration placed an embargo on grain shipments. Now, in spite of the President's reference to the "Evil Empire," we are subsidizing shipments of grain and soybeans to the Soviet Union.

Secretary Verity is trying his best to increase trade by having business organizations in this country open joint venture plants in the U.S.S.R. FMC Corporation has agreed to build either a grape drying plant or a plant to build grape drying machinery -- of course this will have to be financed by the U.S. or FMC. The products of this venture will then be shipped into the free market, in competition with free world producers. This same program is envisaged with 200 other companies.

At the same time this is going on, our Congress, with the approval of the administration, sets up sanctions against the Union of South Africa, our ally. The Republic of South Africa has the best naval base in the Indian Ocean, which we will sorely need in the event of conflict with the U.S.S.R. I need not tell you that besides fighting on our side in two world wars, and supplying us with much needed minerals unavailable elsewhere, we can look upon South Africa as one country that did not point missiles at us, or do anything else to our detriment.

Apparently this government, be it the administration or Congress, thinks preventing the majority of blacks in South Africa from voting is more heinous than starving millions of

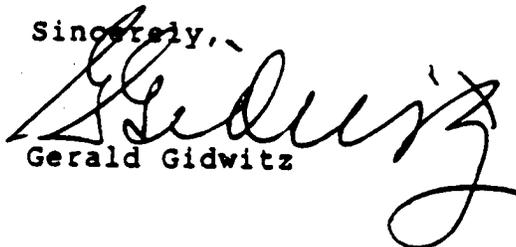
people, using booby-trapped toys against children in Afghanistan, invading Afghanistan and killing a million of their citizens, starving millions of their own citizens, citizens of Ethiopia, and locking up others in slave labor camps in Siberia.

My recollection is that it was the U.S.S.R. involved in the missile crisis in Cuba, not South Africa.

If, instead of bailing out the Soviet Union when they are in economic trouble, we would refuse to help them and stop subsidizing wheat sales, the turmoil in Poland would be like a Sunday school picnic compared to what would happen in the U.S.S.R.

I think this administration has lost its way and just talks about the "Evil Empire" and helps maintain it.

Sincerely,



Gerald Gidwitz

GG/at

enc

"Near Total Embargo..."

"...Marxist Regimes Unraveled..."

Foundation for Africa's Freedom

P.S. The enclosed letter from the FAF illustrates the foolishness of this administration's policy. You should be educating Congress as to the results of sanctions against our friends and persuading this administration to adhere to a policy that conforms with its rhetoric regarding the "Evil Empire."

Senate to consider near-total embargo on S. Africa

By Nathaniel Sheppard Jr.
Chicago Tribune

WASHINGTON—A bill that would impose a near-total trade embargo on South Africa is expected to be introduced in the Senate Thursday, as Congress moves more swiftly than expected toward toughening the U.S. stance against South Africa's apartheid policy.

Companion legislation already has been introduced in the House; it was approved by the Foreign Affairs Committee on May 3.

The new measures would go much further than the Comprehensive Anti-Apartheid Act of 1986, which was enacted over President Reagan's veto, to punish South Africa economically for its continuation of policies that deny its black majority a voice in gov-

ernment and other human rights.

The proposed legislation would halt all U.S. exports to and imports from South Africa, except for strategically important minerals, and would prohibit loans and other business dealings except with enterprises wholly owned by non-whites. A \$40 million fund would be authorized for programs of economic assistance and aid to non-white refugees.

The legislation also would compel the President to "confer with the other industrialized democracies in order to reach cooperative agreements to impose sanctions against South Africa."

The sanctions are expected to win approval relatively easily in the House but face difficulties in the Senate, where some of the Republicans who helped overturn Reagan's veto of the 1986 sanc-

tions have expressed reluctance to approve a full trade embargo.

Some senators have expressed concern that South Africa might retaliate by cutting off or reducing the flow of strategic minerals the U.S. imports. They also fear that blacks, rather than the South African government, could bear the brunt of the sanctions.

Sen. Paul Simon (D., Ill.) said Wednesday: "Prospects for passage in the Senate are difficult to know. The Senate is less sensitive on this issue than it should be and is less representative a body than the House. The House has black members. The Senate does not."

Simon said the level of trade was not high enough for the sanctions to disrupt South Africa's economy, as U.S. sanctions have done to Panama's.

"It will hurt some," he said.

"But more than an economic signal, it will send a moral signal, one that we should send."

South Africans are widely divided on the sanctions issue. A majority of anti-apartheid organizations favor tougher measures against the government, but South African politicians, educators and U.S. businesses remaining in the country oppose sanctions as injurious to reform efforts now underway.

On Wednesday, Nobel Peace Prize laureate Desmond Tutu, the Anglican archbishop of Cape Town, encouraged members of Congress to impose sterner economic measures against his country, asserting that blacks are prepared to endure the hardships that would result.

"It is critically urgent that you make a moral decision: Are you

on the side of injustice or justice? The side of oppression or freedom? Of inhumanity or humanity?" Tutu said.

"I do not want sanctions just for the hell of it. I do not want something that would destroy our country," Tutu said. "But everything that has happened in South Africa has happened because of pressure."

The 1986 sanctions bill banned imports of agricultural products, coal, iron, steel and textiles, and exports of oil, arms, nuclear materials and computers, as well as new loans to South Africa. Reagan vetoed the bill after trying unsuccessfully to head it off by imposing milder sanctions through a presidential order.

In Cape Town, meanwhile, South African Law and Order Minister Adriaan Vlok said police had arrested four white guerrillas and

seized a huge arms cache that included a SAM-7 missile, limpet mines, hand grenades, AK-47 assault rifles, pistols, machine guns, demolition charges, mortars and explosives of Soviet origin.

He said the four, arrested on a farm near Pretoria last Sunday, were three South Africans and a woman whose nationality he did not divulge. Reuters quoted informed sources as saying the woman is believed to hold a British passport. Police said all four were in their 20s.

Vlok said the four were members of the outlawed African National Congress, the main guerrilla movement fighting white domination in South Africa. He said they "made up a tightly knit and highly specialized terror unit" and had been "trained, among other places, in Moscow, Cuba and Angola."

COMMENTARY

As Marxist regimes come unraveled, what do we do? Sit back and enjoy it



Charles Krauthammer

Nothing is so satisfying to a political observer as the unfolding of a great historical irony. And no irony could be greater than the undoing of Marxist regimes by the very mechanism that, according to Marx, would be the undoing of capitalism: the historical dialectic.

According to Marxist dialectics, at every stage of history the economic structure produces the seeds of its own destruction. Feudalism produced a merchant bourgeoisie that ultimately overthrew it. Bourgeois democracy produced an industrial working class that in turn would overthrow the bourgeoisie and usher in communism.

In fact, bourgeois democracy learned to accommodate the demands of workers with the invention of the welfare state, a political structure of remarkable stability. It is Soviet communism that is being shaken to its roots by the two classes it has produced: a state-controlled working class and a state-controlling party bureaucracy.

Poland and Nicaragua are experiencing the kind of working-class revolts that were supposed (by Marx) inevitably to dissolve capitalism. Poland's Solidarity revolt of 1980-81 was so powerful that the Communist Party had to abdicate in favor of the military in order to save itself. In Poland's great steel works and shipyards (named after Lenin, as if to sweeten the irony), the workers have struck again. The strikes have been put down for now, but that can only deepen the workers' alienation, and thus the economic paralysis and rapid decline of the country.

Nicaragua, with its rudimentary Marxist-Leninist system, is experiencing labor unrest, too. Its workers fit perfectly Marx's classic description of "alienated" labor: workers whose boss (the party-state) takes away ("alienates") the fruit of their labor, and worse, offers nothing in return. As the old Soviet joke goes, "We pretend to work and they pretend to pay us." When they pay you in cordobas (25 a day, a new cordoba fetching 1 1/2 cents on the black market), the joke becomes a call to strike.

And for the government, a cause to repress. On March 8, two communist labor organizers on a march were shot dead by a Sandinista patrol. This spring, the construction workers' union—Marxist-led, Moscow-line, and headquartered in a hall bedecked with pictures of Lenin and Castro—organized a major strike to protest starvation wages. It was broken by two months of Sandinista repression: mass firings, violent arrests and a siege of union headquarters.

In the Soviet Union, it is not the working class that is now seeking the undoing of communism. It is the ruling class, the bureaucratic class created by the Bolshevik revolution. More precisely, the elite of that class which, like China's, has come to recognize that Soviet-style communism is a prescription for backwardness. On May 2, for example, Pravda printed on the front page an extraordinary letter, ostensibly from a mid-level bureaucrat in the aviation ministry, but in fact repre-

sented Mikhail Gorbachev. It attacked the toadyism to the dictatorial powers of Stalin and "Stalin's replacements—N. S. Khrushchev and later L. I. Brezhnev." And it denounced the "careerism, individualism, self-seeking, impunity and drunkenness" of the Communist Party nomenklatura.

Moreover, it called for adding 200 technocrats to the party's Central Committee, direct and secret elections and limited terms of office for lower-level Communist Party bosses; elections of party newspaper editors and fixed declassification dates for secret information.

Of course, the attack on blind obedience to the general secretary's party line is itself a new party line handed down by the current general secretary. Nonetheless, something important is going on here. The party's highest leadership is convinced by history—of the West, and now East Asia and Latin America—that modernization cannot proceed without democratization. (Not multi-party democracy, mind you. The Democratic Union, a group of intellectuals planning an opposition political party, learned that the hard way last week when their meeting place was surrounded by police and 14 were arrested.)

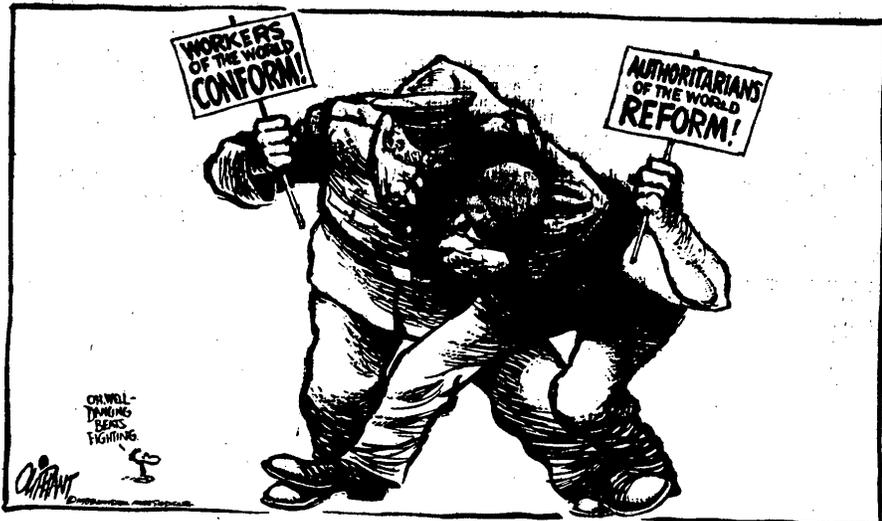
What are we to do in the face of this momentous playing

out of communist contradictions? Savor them. And continue to do the only thing we can do to encourage them. Forty years ago, George Kennan argued famously that containing communism—thwarting its every effort to relieve itself of its own contradictions by expansion—might "increase enormously the strain" on the Soviet system and "promote tendencies which might eventually find their outlet in either the breakup or the gradual mellowing of Soviet power." He was right. We are watching it happen.

And that is all we should do: watch and keep up the pressure. To change course and now suddenly shower Mr. Gorbachev, Nicaragua's Daniel Ortega and Poland's Wojciech Jaruzelski with technology and credits and respite (West German banks last week extended a \$2.1-billion line of credit to the Soviets) can only disrupt the internal dynamic that promises a loosening here, a quivering there, perhaps the collapse somewhere, of communist rule.

This is no time for favors. This is a time to let the dialectic work its will on the system that worships it.

Charles Krauthammer's column is syndicated by Washington Post Writers Group.



Perestroika

FAF

Foundation for Africa's Future

May 5, 1988

Mr. Gerald Gidwitz
Chairman
Helene Curtis
325 North Wells
Chicago, Illinois 60611

Dear Mr. Gidwitz:

The enclosed editorial from today's Wall Street Journal is based on information supplied by the Foundation for Africa's Future. An upcoming Foundation study will assess the costs of South African sanctions on the U.S. economy and black South Africans.

The Journal editorial points out that sanctions:

- * Caused "thousands" of black South Africans to lose their jobs
- * Cost U.S. coal exporters \$250 million and between 3,000 and 7,000 U.S. coal miners their jobs in 1986 and 1987
- * Reduced earnings for New Jersey's pension fund by more than \$360 million between 1985 and 1987.

The U.S. Bureau of Mines estimates that a proposed ban on South African minerals will cost the U.S. economy \$1.85 billion a year, while the Commerce Department figures a ban on South African uranium hexafluoride (UF₆) will cost the U.S. nuclear fuels industry \$300 million annually and endangers the livelihoods of at least 4,500 Americans who work in the industry's conversion, enrichment and fabrication sectors.

The cost of sanctions to the U.S. economy far exceeds America's total foreign aid budget for all of Africa (\$941.9 million proposed for 1988). The cumulative impact of divestment on U.S. public pension funds is staggering. The South Africa-Free Index maintained by the Boston Company consistently performs 2 to 3 points below the S&P 500. Assuming a conservative base of \$500 billion, U.S. funds stand to lose \$15 billion a year. When these results are compounded the net effect is cumulative loss of investment opportunity worth hundreds of billions of dollars.

2300 N Street, NW
Washington, D.C. 20037
(202) 663-8995
Telex: 89-2693 Telecopier: 202-223-3760

MAY 12 1988

For \$1 billion, an amount far less than sanctions' annual cost to the U.S. economy, America could provide 500,000 black South African squatters with title to basic new homes. Or 1.7 million men, women and children could be fed for life. Supplied with these basic tools, South African blacks would be much further along in their march toward economic and political freedom.

Sincerely,

A handwritten signature in black ink, appearing to read 'Thor Ronay', written over a horizontal line.

Thor Ronay
President

enclosures

FAF Foundation for Africa's Future

THE WALL STREET JOURNAL THURSDAY, MAY 5, 1988

Self-Inflicted Sanctions

This week the House Foreign Affairs Committee approved a ban on virtually all U.S. investment and trade with South Africa. It is generally acknowledged that the sanctions already in place have caused thousands of black South Africans to lose their jobs. What isn't known is that sanctions have cost just two small parts of the U.S. economy more than \$600 million since 1985.

By almost every standard, the sanctions imposed on South Africa in 1986 have been a failure. The dismantling of apartheid has slowed to a crawl, black businesses are shutting their doors and American influence in the region has never been lower. But South Africa itself has never been the only concern of the pro-sanctions lobby. It is noteworthy that these major pro-sanctions drives always seem to emerge in U.S. election years, suggesting they have more to do with influencing political outcomes here than in South Africa.

But sanction politics can cut both ways, and before Members of Congress throw more gasoline on the fires of South Africa they might want to examine the costs sanctions and disinvestment have imposed on the U.S.

A recent study by Wharton Econometrics found that a U.S. embargo on imports of South African coal led that country to slash its coal prices in an effort to maintain market share. Wharton found this so depressed the world price of coal that U.S. coal exporters lost \$250 million in 1986 and 1987 alone. The National Coal Association says this meant lost jobs for between 3,000 and 7,000 U.S. miners.

The pending sanctions bill would also ban imports of chrome, platinum and other strategic minerals, though some strategic minerals could be im-

ported if a President were willing to certify they were essential for defense. A U.S. Bureau of Mines study due out this month estimates a ban on minerals would cost the economy \$1.85 billion a year. The Commerce Department says banning imports of uranium and uranium oxide would cost the U.S. nuclear-fuels industry \$300 million a year.

Federal import bans have been supplemented by dozens of state and city governments that have forced their pension funds to sell the stocks of U.S. companies doing business in South Africa. The New Jersey Division of Investment reports that divestment cost the state \$32.5 million in brokerage fees and \$330 million in lower stock earnings in the two years since its divestment began in August 1985. Wisconsin's state investment board estimates that a proposed divestment bill would cost more than \$34 million a year in lower earnings. Thor Ronay of the Washington-based Foundation for Africa's Future points out that New Jersey's investment losses alone could have bought 160,000 South African black squatters modest homes with indoor plumbing.

Sanctions supporters in Congress are well aware of their economic effects as well as the dwindling support they enjoy among South African blacks. But the same Members who passed a 1,000-page trade bill ostensibly to "protect" American workers are willing to destroy jobs with another round of sanctions. Rep. Stephen Solarz admits more sanctions might cost U.S. jobs, but says, "It may well be necessary in the pursuit of vital American interests for us to be prepared to pay a certain price ourselves at home." As always, the price won't be paid by Members of Congress but by others.

2300 N Street, NW
Washington, D.C. 20037
(202) 663-8995
Telex: 89-2693 Telecopier: 202-223-3760



THE SECRETARY OF THE TREASURY
WASHINGTON

May 10, 1988

Dear Mr. Gidwitz:

Thank you for your letter of April 7, 1988, and the materials you enclosed on the Soviet Union.

Recent press reports about changes in U.S. trade policy toward the Soviet Union have been inaccurate. In particular, the Cabinet meeting at which such changes were alleged to have been decided did not take place. The Cabinet has not discussed or approved changes in our trade policy toward the Soviet Union.

Earlier this month, Secretary Verity led a U.S. Government delegation to Moscow for the tenth meeting of the U.S.-USSR Joint Commercial Commission, which was established in 1972. Documents released after that meeting lay out U.S. policy and directly address some of the concerns you have expressed. I am enclosing copies for your information.

You will note that the Fact Sheet explicitly states that one of the two major objectives of the Secretary's meetings was "to reiterate that fundamental improvements in the trade relationship depend upon further improvements elsewhere in the bilateral relationship -- particularly in human rights and emigration."

Also, Secretary Verity clearly stated that "protecting American and Western security will continue to govern expansion of that (non-strategic) trade."

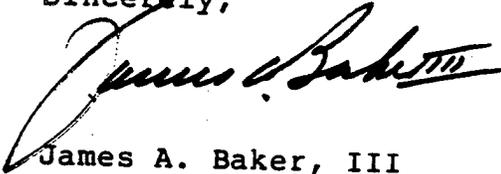
Finally, with respect to the plans of private U.S. firms doing business in or with the Soviet Union, I can assure you that the Administration will continue its policy of prohibiting through our system of export controls the transfer to the Soviets of any U.S. technology or any U.S. goods of strategic value. Furthermore, the Administration has been working closely with our allies to tighten the effectiveness of our export control programs.

MAY 13 1988

- 2 -

I hope that these points correct the misunderstandings created by recent press reporting of our trade policy toward the Soviet Union, and I appreciate your taking the time to share with me your thoughts and concerns.

Sincerely,

A handwritten signature in cursive script, appearing to read "James A. Baker, III".

James A. Baker, III

Mr. Gerald Gidwitz
Chairman of the Board
Helene Curtis, Inc.
325 N. Wells Street
Chicago, Illinois 60610

Enclosure

FACT SHEET:

RESULTS OF
THE JOINT U.S. - USSR COMMERCIAL COMMISSION MEETINGS,
APRIL 12-14, 1988

U.S. Secretary of Commerce C. William Verity and Soviet Foreign Economic Relations First Deputy Minister Kachanov have concluded three days of meetings of the Joint U.S.-USSR Commercial Commission. This was the 10th meeting of the Commission, which was formed in 1972.

The Commission met this year at the specific instruction of President Reagan and General Secretary Gorbachev, who in their joint statement at the conclusion of the December 1987 Summit, directed Secretary Verity and his Soviet counterpart to convene the Commission to propose concrete measures to expand mutually beneficial trade and economic relations between the two countries.

The two major objectives of the U.S. delegation were: (1) to reiterate that fundamental improvements in the trade relationship depend upon further improvements elsewhere in the bilateral relationship -- particularly in human rights and emigration; and (2) to seek market access gains for U.S. companies in the Soviet Union. Both goals were achieved.

The U.S. delegation reaffirmed the support of the Administration for the expansion of mutually beneficial non-strategic trade and economic relations. Secretary Verity explained the U.S. willingness to make step-by-step progress in trade and economic relations within the guidelines of present U.S. policy, noting U.S. interest in pragmatic and concrete proposals to increase trade. The U.S. share of Western trade with the USSR is small. In 1986, for example, the U.S. share of OECD trade with the Soviet Union was only 4.5 percent -- and the vast bulk of this was U.S. grain.

Secretary Verity also stressed that fundamental changes in U.S. trade policy toward the Soviet Union were related to the quality of the overall relationship between the two countries. He noted that major trade gains were possible depending on major improvements in other aspects of the bilateral relationship. He particularly pointed to the U.S. interest in human rights and emigration. He noted that present emigration levels are notably higher than in the last few years, but are still below the average for the 1970's.

MARKET ACCESS IMPROVEMENTS

The U.S. delegation's principal goals with respect to marketing were to obtain improved market access and greater transparency of marketing information in the Soviet Union. This is particularly important as trade decision-making authority in the USSR is decentralized to around 100 different Soviet ministries and enterprises.

The U.S. delegation sought specific, concrete steps which would improve the ability of U.S. companies to sell non-military, non-strategic goods and services in the USSR. A number of agreements were reached in the Joint Commercial Commission that will improve the prospects for bilateral trade and investment. In particular, the steps that the Soviets have agreed to take should improve the conditions for doing business in the USSR and should shorten the time that has been required to negotiate business.

In the area of market access and trade facilitation, agreements were reached on the following:

- o A new U.S. marketing and advertising program will be set up through the U.S. Commercial Office in Moscow, which will publish a Commercial Newsletter and, in cooperation with the USSR Chamber of Commerce and Industry, will distribute it to thousands of Soviet trade organizations and officials. This newsletter will substantially improve the ability of U.S. companies to advertise their products and services to interested Soviet buyers.
- o A program of cooperation will be initiated to boost business in selected non-strategic areas with high potential, with bilateral working groups being formed in medical equipment, construction equipment, oil and gas equipment, and equipment for the consumer goods industries.
- o The Soviets agreed to take steps enabling Soviet business and trade personnel to have open access to the U.S. Commercial Office in Moscow. This will provide potential Soviet buyers with access to marketing information on thousands of U.S. companies and products.
- o The U.S. will start a trade missions program in the USSR, and the Soviets agreed to provide appropriate assistance.

- o The Soviets agreed to accelerate efforts to improve working conditions for U.S. firms with offices in the Soviet Union. They announced simplified Soviet visa procedures, including multiple entry visas, for foreign business visitors, including U.S. business visitors.
- o The Soviets agreed to work on reducing business negotiating times and complications.
- o The U.S. Department of Commerce will set up a "Joint Venture Information Center" to provide guidance to U.S. companies in order to facilitate compliance with U.S. technology transfer regulations in a joint venture.
- o Both sides will establish a joint US-USSR legal seminar series on business law to help government and private lawyers better handle the practical legal aspects of bilateral business, including investment.

Finally, two special documents were issued by Secretary Verity and First Deputy Minister Kachanov at the conclusion of the Joint Commission meeting:

- o A protocol noting that the terms of the 1972 U.S. - USSR Long-Term Economic Industrial and Technical Cooperation Agreement apply to joint ventures and other new forms of business organization now permitted by the USSR; and
- o A "Joint Statement" listing the accomplishments of the Commission and stipulating the desire of both sides to increase bilateral trade and economic cooperation. This document will be publicized to Soviet enterprises and to the U.S. business community.

These steps, taken together, represent a forward step to improve the prospects for the expansion of trade between the United States and the Soviet Union. U.S. exports to the USSR last year were only \$1.5 billion -- and only \$600 million of this was in manufactured goods. Secretary Verity stated that he does not expect a dramatic increase in these numbers as a result of what was agreed in the JCC, but that the agreements will contribute to the trade relationship and lead to a gradual increase in two-way trade.

ADDITIONAL OFFICIAL MEETINGS

Secretary Verity, accompanied by Ambassador Matlock and other senior members of the U.S. delegation, had official meetings with General Secretary Gorbachev, Premier Ryzhkov, Foreign Economic Commission Chairman Kamentsev, First Deputy Minister for Foreign Economic Relations Kachanov, GOSAGROPROM Chairman Murakhovsky, and Central Committee Secretary Dobrynin.

NON-STRATEGIC TRADE ONLY

Secretary Verity stressed both in the Commission and in his talks that the United States is interested only in non-strategic trade. The U.S. delegation did not discuss any changes in technology transfer controls. The matter did not even come up. Secretary Verity has emphasized that our technology transfer controls are for the purpose of ensuring Western security, and not for the purpose of restricting trade.

The United States does not view technology transfer controls as an obstacle to peaceful, non-strategic trade. The United States believes that there are ample areas for increasing trade which are not affected by national security export controls, including many areas in consumer goods industries, oil and gas equipment, medical equipment, and construction equipment.

RELATIONSHIP TO U.S. OVERALL GOALS

Secretary Verity and the U.S. delegation repeatedly stated that U.S. trade relations are a part of the overall bilateral relationship and that fundamental improvements in the conditions for trade cannot take place without parallel improvements in other parts of the relationship, especially in the human rights area. The U.S. interest in emigration was particularly stressed. The delegation took note of the increased emigration last year, and stated its hope that further gains would follow.

CONTRACTS AND JOINT VENTURES

A number of U.S. companies signed contracts with Soviet enterprises this week. Some of these were for joint ventures in the Soviet Union. Combustion Engineering signed the first U.S. joint venture last December, and this week Honeywell signed a joint venture. Additionally, a group of U.S. companies formed the "American Trade Consortium" under which they will seek commercially viable business opportunities in civilian areas.

In the December 1987 Summit statement, President Reagan and General Secretary Gorbachev agreed that commercially viable joint ventures could play a role in the further development of bilateral economic relations. The U.S. government supports American companies in their efforts to conclude commercially viable business in non-strategic areas. The U.S. Government, however, does not endorse, and has not endorsed any particular business venture -- including those signed this week. The position of the U.S. Government is that this is a matter for private companies to decide.

The U.S. Government's position is policy-neutral toward joint ventures in principle, stating that the choice of business organization is a commercial matter. The U.S. Government, of course, reviews all requests for export licenses for technical data, including those for joint ventures. Each license application is carefully reviewed to ensure that U.S. national security is not affected.

USTEC MEETINGS

The U.S.-USSR Trade and Economic Council has been meeting in Moscow this week, holding its 11th annual meeting. USTEC is an organization of U.S. companies and Soviet enterprises interested in bilateral trade. These meetings are totally separate from the government-to-government Joint Commission meetings. They are held concurrently so that the USTEC meetings may be addressed by the Secretary of Commerce and the Soviet Foreign Economic Relations Minister. Secretary Verity addressed the opening session of the USTEC meeting on Wednesday, April 13.

COMMERCIAL WHALING

While in Moscow, Secretary Verity took note of the fact that the Department of Commerce has received assurances from the Soviet Ambassador to the United States that the Soviet Union has ceased commercial whaling and intends to work through the International Whaling Commission (the "IWC") for whale research and conservation. The cessation of commercial whaling by major whaling nations has been a major objective of global environmental groups and the IWC.

Secretary Verity welcomed the Soviet decision and stated his hope that it sets a pattern for similar decisions on the part of other whaling nations to work within the IWC for the purposes of research and conservation. Secretary Verity expressed his confidence that, as a result, the United States and the Soviet Union will quickly be able to expand fisheries cooperation provided for in a new fishing agreement that was signed on February 21. Doing so will benefit both sides.

Text as given

**STATEMENT OF HONORABLE C. WILLIAM VERITY
U.S. SECRETARY OF COMMERCE**

**AT A PRESS BRIEFING
MOSCOW**

APRIL 14, 1988

Ladies and Gentlemen: I have a brief statement to make, and will then take your questions.

First I would like to introduce the other senior members of the U.S. delegation who are up here with me. Under Secretary of State Wallis, Under Secretary of Commerce Freedenberg, Under Secretary of Commerce Evans, Presidential National Security Advisors Bob Dean and Steve Danzansky, and Acting Assistant Secretary of Commerce Jim Moore. Ambassador Matlock is not with us, as he is in Geneva for the signing of the documents connected with Soviet troop withdrawal from Afghanistan.

As you know, there have been two separate and distinct meetings going on here in Moscow -- my own official discussions with Soviet government and party leaders, and those of USTEC with their Soviet business counterparts. I have made clear in my discussions that there is no ambiguity in the Administration's policies. However, in light of some things said by U.S. business representatives, I would like to clarify three points.

First, our concerns about human rights in the Soviet Union, particularly emigration of Soviet citizens in accord with the principles of the Helsinki Final Declaration, will have a direct effect on our ability to take steps that will expand trade. We welcome steps the Soviet government has taken in the past year and urge further liberalization. However, we are a nation of immigrants and would not be true to our principles if we did not stand up for the most basic of human rights.

Second, the President and General Secretary Gorbachev have endorsed expansion of non-strategic trade. However, protecting American and Western security will continue to govern expansion of that trade. At the same time, export controls need not limit true trade expansion. I would note that this issue was not discussed with our Soviet hosts.

Third, the GATT organization is based on fundamental market economy principles and governs trade between market-oriented economies. GATT membership cannot be extended to nations whose economic systems are in the main unresponsive to market signals. Neither the United States nor most other GATT members support Soviet membership. If and when the Soviet economy functions in accord with basic market principles, the U.S. government will be in a position to reconsider the matter.

- 2 -

American businessmen may differ with these views, and they are of course free to express their viewpoints. But it is important in the context of this week's meetings that the Administration's views be duly understood.

Let me stress that we did not come to Moscow to make any trade breakthroughs. That wasn't our purpose. Our trade relations are part of the overall bilateral relationship and fundamental improvements can not occur without parallel improvements in other areas, especially in human rights. Demonstrating the U.S. interest in emigration, Acting Assistant Secretary Moore met with a group of "Refuseniks" during our visit.

In seeking to facilitate the ability of U.S. firms to sell in the Soviet Union, our main goal was to improve market access and market information -- sort of a "marketing glasnost". The U.S. and Soviet sides agreed on a number of steps in this regard, for example:

- o The Soviet side will enable its business and trade officials to have open access to the U.S. Commercial Office in Moscow;
- o The Soviet Chamber of Commerce and Industry will assist the U.S. Commercial Office in distributing a regular U.S. Commercial Newsletter to thousands of key Soviet business decision makers;
- o Joint working groups have been established to explore marketing opportunities for equipment in the food processing, medical, construction, oil and gas, and consumer goods industries;
- o A series of joint seminars on laws affecting business will begin in September of this year;
- o The United States will initiate a program of trade missions with Soviet support.

Acting Minister Kachanov and I issued a joint statement on the results of the Commission and expressing the interest both sides have in expanding bilateral trade.

We also signed a protocol amending the Long Term Economic, Industrial and Technical Cooperation Agreement between the two countries. The main purpose of this protocol was to recognize the new forms of business organization, such as joint ventures, now permitted in the USSR.

Taken together, these steps represent measures that will further improve the ability of U.S. firms to do nonstrategic business in the Soviet Union. I do not expect the increase in trade that results to be dramatic. As I said earlier, we came here to take another step in the step-by-step process, not to make breakthroughs.

- 3 -

Among the various responsibilities of the Secretary of Commerce is fisheries, and in concluding my statement I have a major announcement to make in this area.

We have been formally notified by the Soviets that the USSR has ceased commercial whaling and intends to work through the International Whaling Commission, the IWC, for whale research and conservation. This is a significant international achievement which removes a major obstacle to U.S.-Soviet cooperation in fisheries.

I welcome this decision and hope it sets a pattern for other whaling nations. I am confident that as a result we will quickly be able to expand fisheries cooperation in a way benefitting the fishing industries of both countries.

Before I take your questions, I would like to thank our Soviet hosts for their careful arrangements and their hospitality, including last night's dinner hosted by General Secretary Gorbachev. I would also like to express my appreciation to Ambassador Matlock and his staff for their wonderful support, despite being already overburdened.

May I have the first question?

325 N. Wells Street

Chicago, Illinois

60610

Telephone 312-661-0222

Gerald Gidwitz

Chairman of the Board

April 7, 1988

Secretary James A. Baker III
Department of the Treasury
15th and Pennsylvania Ave., N.W.
Washington, D.C. 20220

Dear Secretary Baker:

I read an article in the Chicago Tribune today that the cabinet is approving Secretary Verity's initiative to stimulate trade with the Soviets.

I understand that we have sanctions against the Union of South Africa. I am appalled.

The Union of South Africa has sided with us in two World Wars. They have never pointed missiles at us, nor interfered with our sea traffic. They have never generated revolutions to our detriment in the third world, or among countries friendly to us. The U.S.S.R. has done all of these things, including building a war machine that so threatens us and our friends that we have had to spend billions of dollars in order to endeavor to cope with the threat. So far, we do not have anywhere near the size of the defense establishment that we should have in order to protect ourselves and our friends from a military thrust in Europe.

The world-wide espionage, disinformation, and non-military attack against us by the U.S.S.R. is even more dangerous than its military attack.

The human rights violations, the jails, the murders, and all the other things that have been done by the U.S.S.R. in the last seventy years in the development of its evil empire far exceeds anything that can be criticized in the Union of South Africa.

This new approval, by our cabinet, will enable the U.S.S.R. not only to acquire our Western technology more quickly, but with our help, will build a consumer industry that will take the pressure off the U.S.S.R. so that it can expand its military push and at the same time mollify its civilian population so that they can continue their campaign for world domination. Our friends in Europe are so in need of trade that this action on our part

Secretary Baker
Page 2

will end all trade restrictions on sensitive technology that can be used to further build the U.S.S.R. war machine.

In my opinion, our cabinet members are pursuing a policy that is the height of folly, and an extremely dangerous risk to our welfare.

Enclosed please find a booklet I wrote nine years ago about the U.S.S.R., the largest and most deadly armed force in the world. I also enclose "Seventy Years of Evil" which outlines the Soviet's repeated history of ruthless control, from 1917 to the present. Lastly, I include Jim Courter's commentary on the Soviet challenge to global democracy.

I share these with you in hopes that the message they carry will not be lost, and the action of our cabinet can be reversed. We criticize Jimmy Carter but we end his embargo of wheat sales to the "Evil Empire," imposed when the U.S.S.R. invaded Afghanistan. The masters in the Kremlin seem to know that all they have to do is wait and the westerners will "sell them the rope to hang us."

Sincerely,

Gerald Gidwitz

GG/at

Enclosures

1. Chess Set
2. Seventy Years of Evil
3. Global Challenge